

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Iron County Housing Commission	County Iron
Fiscal Year End 9/30/2005	Opinion Date 6/7/2006	Date Audit Report Submitted to State 6/20/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

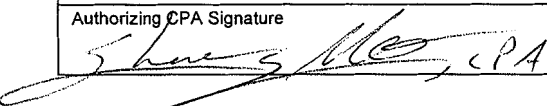
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	Zip 49801
		License Number 263063	

**IRON COUNTY HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended September 30, 2005

# IRON COUNTY HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

*A Regional Firm with Offices in Michigan and Wisconsin*

**Principals - Iron Mountain:**

L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

**Member of:**

Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Iron County Housing Commission as of and for the year ended September 30, 2005 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Iron County Housing Commission as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2006 on our consideration of the Iron County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iron County Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Iron County Housing Commission. The Financial Data Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

June 7, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Iron County Housing Commission's financial performance provides an overview of the financial activities for the year ended September 30, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$3,068,843 at September 30, 2005 compared to \$3,179,710 at September 30, 2004.
- The Commission's operating revenues totaled \$1,368,073 for September 30, 2005 and \$1,396,373 for September 30, 2004, while operating expenses totaled \$1,483,605 for September 30, 2005 and \$1,488,312 for September 30, 2004.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at September 30, 2005 decreased \$(110,867) from September 30, 2004.

Table 1

### NET ASSETS

	September 30,	
	2005	2004
<b>Assets</b>		
Current assets	\$ 291,594	\$ 311,269
Capital assets (net)	<u>2,899,179</u>	<u>3,003,865</u>
Total assets	<u>3,190,773</u>	<u>3,315,134</u>
<b>Liabilities</b>		
Current liabilities	98,916	101,425
Noncurrent liabilities	<u>23,014</u>	<u>33,999</u>
Total liabilities	<u>121,930</u>	<u>135,424</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,899,179	3,003,865
Unrestricted	<u>169,664</u>	<u>175,845</u>
Net Assets	<u>\$ 3,068,843</u>	<u>\$3,179,710</u>

Net assets of the Commission stood at \$3,068,843 at September 30, 2005 compared to \$3,179,710 at September 30, 2004. Unrestricted net business assets were \$169,664 compared to \$175,845 at September 30, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The decrease in current assets was due to the Commission using its reserves to purchase capital assets in excess of capital funds received.

**Table 2****CHANGE IN NET ASSETS**

	<u>Year Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 173,823	\$ 170,718
Program grants and subsidies	1,182,718	1,216,802
General revenues:		
Other revenues	11,532	8,853
Unrestricted investment earnings	<u>4,665</u>	<u>3,241</u>
 Total revenues	 1,372,738	 1,399,614
 <b>Program Expenses:</b>		
Operating expenses	<u>(1,483,605)</u>	<u>(1,483,558)</u>
 Change in net assets	 (110,867)	 (83,944)
 Net assets - beginning of period	 <u>3,179,710</u>	 <u>3,263,654</u>
 Net assets - end of period	 <u>\$3,068,843</u>	 <u>\$ 3,179,710</u>

**BUSINESS – TYPE ACTIVITIES**

Revenues for the Commission totaled \$1,372,738 compared to \$1,399,614 during September 30, 2004. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPTIAL ASSETS**

### **Capital Assets**

The Commission had \$7,908,371 invested in a variety of capital assets including land, equipment and buildings at September 30, 2005 compared to \$7,710,499 at September 30, 2004.

**Table 3**

### **CAPITAL ASSETS Business - Type Activity**

	September 30,	
	2005	2004
Land and improvements	\$ 1,149,146	\$ 1,142,757
Building and improvements	6,458,197	6,288,414
Equipment	249,615	247,647
Contruction-in-progress	<u>51,413</u>	<u>31,681</u>
Total	7,908,371	7,710,499
Less accumulated depreciation	<u>(5,009,192)</u>	<u>(4,706,634)</u>
<b>NET CAPITAL ASSETS</b>	<u><b>\$2,899,179</b></u>	<u><b>\$3,003,865</b></u>

The Commission invested \$197,872 in capital assets during the year ended September 30, 2005.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

### **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Steve Gagne, at 210 N. Third, Crystal Falls, Michigan 49920, or call 906-875-6060.

# IRON COUNTY HOUSING COMMISSION

## **STATEMENT OF NET ASSETS** **Proprietary Fund**

September 30, 2005

<b>CURRENT ASSETS:</b>	
Cash and equivalents	\$ 114,806
Accounts receivable	40,939
Investments	116,000
Prepaid expenses	<u>19,849</u>
<b>TOTAL CURRENT ASSETS</b>	<u>291,594</u>
<b>NONCURRENT ASSETS:</b>	
Capital assets	7,908,371
Less accumulated depreciation	<u>(5,009,192)</u>
<b>NET CAPITAL ASSETS</b>	<u>2,899,179</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,190,773</u>
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 50,849
Accrued liabilities	<u>48,067</u>
<b>TOTAL CURRENT LIABILITIES</b>	98,916
<b>NONCURRENT LIABILITIES</b>	<u>23,014</u>
<b>TOTAL LIABILITIES</b>	<u>121,930</u>
<b>NET ASSETS:</b>	
Investment in capital assets, net of related debt	2,899,179
Unrestricted net assets	<u>169,664</u>
<b>NET ASSETS</b>	<u>\$ 3,068,843</u>

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The accompanying notes to financial statements are an integral part of this statement.



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**IRON COUNTY HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
				<u>Business-Type Activities</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Public Housing	<u>\$ 1,483,605</u>	<u>\$ 173,823</u>	<u>\$ 1,002,680</u>	<u>\$ 180,038</u>
				<u>(127,064)</u>
General revenues:				
Unrestricted investment earnings				4,665
Other				11,532
Total general revenues				16,197
Change in net assets				(110,867)
NET ASSETS, beginning of year				3,179,710
NET ASSETS, end of year				<u>\$ 3,068,843</u>

The accompanying notes to the financial statements are an integral part of this statement.

# IRON COUNTY HOUSING COMMISSION

## **STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS Proprietary Fund**

For the Year Ended September 30, 2005

### OPERATING REVENUES:

Tenant revenue	\$ 173,823
Program grants-subsidies	1,002,680
Other income	<u>11,532</u>

TOTAL OPERATING REVENUES	<u>1,188,035</u>
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### OPERATING EXPENSES:

Administration	259,489
Tenant services	2,792
Utilities	120,905
Maintenance	183,127
General	33,098
Other operating	14,980
Housing assistance payments	566,656
Depreciation	<u>302,558</u>

TOTAL OPERATING EXPENSES	<u>1,483,605</u>
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OPERATING (LOSS)	(295,570)
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### NONOPERATING REVENUES AND (EXPENSES):

Interest income	4,665
Capital grants	<u>180,038</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>184,703</u>
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CHANGE IN NET ASSETS	(110,867)
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NET ASSETS, BEGINNING OF YEAR	<u>3,179,710</u>
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NET ASSETS, END OF YEAR	<u>\$ 3,068,843</u>
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The accompanying notes to financial statements are an integral part of this statement.

# IRON COUNTY HOUSING COMMISSION

## **STATEMENT OF CASH FLOWS** **Proprietary Fund**

For the Year Ended September 30, 2005

### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 171,568
Cash received from grants and subsidies	996,630
Cash payments to suppliers for goods and services	(902,436)
Cash payments for wages and related benefits	(285,867)
Cash payments for payment in lieu of taxes	(4,482)
Other receipts	<u>9,419</u>

NET CASH (USED) BY OPERATING ACTIVITIES (15,168)

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	180,038
Acquisition of capital assets	<u>(197,872)</u>

NET CASH (USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES (17,834)

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(2,225)
Investment income	<u>3,317</u>

NET PROVIDED FROM INVESTING ACTIVITIES 1,092

NET (DECREASE) IN CASH AND EQUIVALENTS (31,910)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 146,716

CASH AND EQUIVALENTS, END OF YEAR \$ 114,806

### RECONCILIATION OF OPERATING INCOME TO NET

#### CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (295,570)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	302,558
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(10,418)
Decrease (Increase) in prepaid expenses	1,756
Increase (Decrease) in accounts payable	(3,852)
Increase (Decrease) in accrued liabilities	<u>(9,642)</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES \$ (15,168)

The accompanying notes to financial statements are an integral part of this statement.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Iron County Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a Board of Commissioners appointed by the County Board.

The Commission manages 123 units of low rent public housing and 169 section 8 vouchers of which, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Iron County Housing Commission, but the Iron County Housing Commission is a component unit of Iron County, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS**

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.





## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS (Continued)**

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on October 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to September 30<sup>th</sup> the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30<sup>th</sup>.



## IRON COUNTY HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

(Continued)

#### **NOTE B - CASH AND INVESTMENTS**

##### Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 25
Checking accounts	61,843
Savings accounts	<u>52,938</u>
 TOTAL	 <u>\$ 114,806</u>

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of September 30, 2005, the Commission's cash and equivalents were fully insured and not subject to any Custodial Credit Risk.

##### Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>
		<u>Less Than 1 Year</u>
Certificates of Deposit	<u>\$116,000</u>	<u>\$116,000</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

*Custodial Credit Risk.* . Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. The Commission held investments in excess of FDIC insurance limits in the amount of \$16,000 which was uninsured and uncollateralized at September 30, 2005.



## IRON COUNTY HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

#### **NOTE B - CASH AND INVESTMENTS (Continued)**

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

*Concentration of Credit Risk.* The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. All of the Commission's certificates of deposit are with the Republic Bank in Iron River, Michigan.

#### **NOTE C - CAPITAL ASSETS**

A summary of capital assets as of September 30, 2005 is as follows:

	Balance 10-1-04	Additions	Deletions	Balance 9-30-05
Land and improvements	\$1,142,757	\$ 6,389	\$ -	\$1,149,146
Building and improvements	6,288,414	169,784	-	6,458,198
Equipment	247,647	1,967	-	249,614
Construction-in-progress	31,681	180,038	(160,306)	51,413
	7,710,499	<u>\$ 358,178</u>	<u>\$ (160,306)</u>	7,908,371
Accumulated depreciation	<u>(4,706,634)</u>	<u>\$ (302,558)</u>	<u>\$ -</u>	<u>(5,009,192)</u>
Net capital assets	<u>\$3,003,865</u>			<u>\$2,899,179</u>

Depreciation expense for the year was \$302,558.

#### **NOTE D - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



## **IRON COUNTY HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

September 30, 2005

(Continued)

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended September 30, 2005 totaled \$1,372,738 of which \$1,182,718 or 86.2% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

#### **NOTE G - PENSION PLAN**

Description of Plan and Plan Assets - The Housing Commission participates along with the County in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 1.7 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2004 is as follows: Housing Commission 12.26%



# IRON COUNTY HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

(Continued)

### NOTE G – PENSION PLAN (Continued)

Annual Pension Cost - During the fiscal year ended December 31, 2004, the County's contributions totaling \$154,284 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/02	\$1,822,786	\$2,914,373	\$1,091,587	62.5%	889,309	123%
12/31/03	\$1,972,826	\$3,071,468	\$1,098,642	64%	907,429	121%
12/31/04	\$2,131,543	\$3,343,489	\$1,211,946	64%	991,194	122%

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& COMPANY, P.L.C.  
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## **SUPPLEMENTAL INFORMATION**



**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

September 30, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Housing Choice Vouchers</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS:</b>					
Cash:					
111	Cash - unrestricted	\$ 73,214	\$ 41,592	\$ -	\$ 114,806
114	Cash - tenant security deposits	-	-	-	-
100	Total cash	73,214	41,592	-	114,806
Accounts and notes receivables:					
122	Accounts receivable- HUD other projects	-	-	33,757	33,757
125	Accounts receivable- miscellaneous	2,159	-	-	2,159
126	Accounts receivable- tenants - dwelling rents	2,376	-	-	2,376
126.1	Allowance for doubtful account - dwelling rents	(120)	-	-	(120)
129	Accrued interest receivable	2,767	-	-	2,767
120	Total receivables, net of allowances for doubtful accounts	7,182	-	33,757	40,939
Other assets:					
131	Investments - unrestricted	116,000	-	-	116,000
142	Prepaid expenses	19,674	175	-	19,849
144	Interprogram due from	44,350	-	-	44,350
150	TOTAL CURRENT ASSETS	260,420	41,767	33,757	335,944

See accompanying notes to financial statements



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## IRON COUNTY HOUSING COMMISSION

### **FINANCIAL DATA SCHEDULE**

#### **Proprietary Fund**

September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b>NONCURRENT ASSETS:</b>					
Fixed assets:					
161	Land	364,852	-	-	364,852
162	Buildings	6,297,891	-	160,306	6,458,197
163	Furniture, equipment & machinery - dwellings	97,410	-	-	97,410
164	Furniture, equipment & machinery - administration	149,675	2,530	-	152,205
165	Leasehold improvements	784,294	-	-	784,294
166	Accumulated depreciation	(5,007,632)	(1,560)	-	(5,009,192)
167	Construction in progress	-	-	51,413	51,413
160	Total fixed assets, net of accumulated depreciation	2,686,490	970	211,719	2,899,179
180	TOTAL NONCURRENT ASSETS	2,686,490	970	211,719	2,899,179
190	TOTAL ASSETS	\$ 2,946,910	\$ 42,737	\$ 245,476	\$ 3,235,123

See accompanying notes to financial statements





**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES</b>					
312	Accounts payable ≤ 90 days	\$ 48,184	\$ 2,665	\$ -	\$ 50,849
321	Accrued wages / payroll taxes	1,331	-	-	1,331
322	Accrued compensated absences - current portion	3,976	1,610	-	5,586
331	Accounts payable - HUD PHA programs	-	7,362	-	7,362
333	Accounts payable - other government	3,397	-	-	3,397
341	Tenant security deposits	24,296	-	-	24,296
342	Deferred revenues	6,095	-	-	6,095
347	Interprogram due to	-	10,593	33,757	44,350
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>87,279</b>	<b>22,230</b>	<b>33,757</b>	<b>143,266</b>
354	Accrued compensated absences - non current	14,425	8,589	-	23,014
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>14,425</b>	<b>8,589</b>	<b>-</b>	<b>23,014</b>
300	<b>TOTAL LIABILITIES</b>	<b>101,704</b>	<b>30,819</b>	<b>33,757</b>	<b>166,280</b>

See accompanying notes to financial statements



ANDERSON, TACKMAN  
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CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE Proprietary Fund

September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<u>NET ASSETS</u>					
Contributed Capital:					
508.1	Investment in capital assets, net of related debt	2,686,490	970	211,719	2,899,179
512.1	Unrestricted net assets	158,716	10,948	-	169,664
513	TOTAL NET ASSETS	2,845,206	11,918	211,719	3,068,843
600	TOTAL LIABILITIES AND NET ASSETS	\$ 2,946,910	\$ 42,737	\$ 245,476	\$ 3,235,123

See accompanying notes to financial statements



ANDERSON, TACKMAN  
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CERTIFIED PUBLIC ACCOUNTANTS

**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

For the Year Ended September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
<b><u>REVENUES</u></b>					
703	Net tenant rental revenue	\$ 160,099	\$ -	\$ -	\$ 160,099
704	Tenant revenue - other	13,724	-	-	13,724
705	Total tenant revenue	173,823	-	-	173,823
706	HUD PHA grants	324,791	642,549	35,340	1,002,680
706.1	Capital grants	-	-	180,038	180,038
711	Investment income - unrestricted	4,138	527	-	4,665
715	Other revenue	11,532	-	-	11,532
716	Gain (loss) on sale of fixed assets	-	-	-	-
700	TOTAL REVENUES	514,284	643,076	215,378	1,372,738
<b><u>EXPENSES</u></b>					
Administrative:					
911	Administrative salaries	82,113	28,561	-	110,674
912	Auditing fees	3,700	400	-	4,100
914	Compensated absences	(1,678)	1,178	-	(500)
915	Employee benefit contributions- administrative	45,959	12,909	-	58,868
916	Other operating- administrative	51,480	34,867	-	86,347
	Total Administrative	181,574	77,915	-	259,489

See accompanying notes to financial statements



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**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services:					
924	Tenant services - other	2,792	-	-	2,792
Utilities:					
931	Water	44,911	-	-	44,911
932	Electricity	31,703	-	-	31,703
933	Gas	27,240	-	-	27,240
934	Fuel	17,051	-	-	17,051
	Total Utilities	120,905	-	-	120,905
Maintenance:					
941	Ordinary maintenance and operations - labor	80,465	-	-	80,465
942	Ordinary maintenance and operations - materials & other	31,653	-	-	31,653
943	Ordinary maintenance and operations - contract costs	27,732	-	-	27,732
945	Employee benefit contributions- ordinary maintenance	43,277	-	-	43,277
	Total Maintenance	183,127	-	-	183,127
General expenses:					
961	Insurance premiums	28,973	-	-	28,973

See accompanying notes to financial statements



**IRON COUNTY HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE**

**Proprietary Fund**

For the Year Ended September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
962	Other general expenses	-	384	-	384
963	Payment in lieu of taxes	3,562	-	-	3,562
964	Bad debt - tenant rent	179	-	-	179
	Total General Expenses	32,714	384	-	33,098
969	TOTAL OPERATING EXPENSES	521,112	78,299	-	599,411
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(6,828)	564,777	215,378	773,327
971	Extraordinary maintenance	15,742	-	-	15,742
972	Casualty losses - non-capitalized	(762)	-	-	(762)
973	Housing assistance payments	-	566,656	-	566,656
974	Depreciation expense	302,052	506	-	302,558
900	TOTAL EXPENSES	838,144	645,461	-	1,483,605
Other financing sources (uses):					
1001	Operating transfers in	35,340	-	-	35,340
1002	Operating transfers out	-	-	(35,340)	(35,340)
1010	Total other financing sources (uses)	35,340	-	(35,340)	-

See accompanying notes to financial statements



**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

## IRON COUNTY HOUSING COMMISSION

### FINANCIAL DATA SCHEDULE

#### Proprietary Fund

For the Year Ended September 30, 2005

Line Item #	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (288,520)	\$ (2,385)	\$ 180,038	\$ (110,867)
MEMO account information					
1103	Beginning equity	\$ 2,784,318	\$ 16,733	\$ 373,792	\$ 3,174,843
1104	Prior Period Adjustments, Equity Transfers	\$ 349,408	\$ (2,430)	\$ (342,111)	\$ 4,867
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 649,911	\$ -	\$ 649,911
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ 57,779	\$ -	\$ 57,779
1116	Total Annual Contributions Available	\$ -	\$ 707,690	\$ -	\$ 707,690
1120	Unit months available	1,476	2,028	-	3,504
1121	Number of unit months leased	1,441	2,028	-	3,469

See accompanying notes to financial statements

**IRON COUNTY HOUSING COMMISSION**

**FEDERAL AUDIT REPORTS**

For the Year Ended September 30, 2005

**ANDERSON, TACKMAN  
& COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS



**IRON COUNTY HOUSING COMMISSION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

We have audited the financial statements of the business-type activities of the Iron County Housing Commission as of and for the year ended September 30, 2005, which collectively comprise the Iron County Housing Commission's basic financial statements, and have issued our report thereon dated June 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron County Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iron County Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Iron County Housing Commission in a separate letter dated June 7, 2006.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. PLLC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

June 7, 2006

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

Compliance

We have audited the compliance of Iron County Housing Commission with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2005. Iron County Housing Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Iron County Housing Commission's management. Our responsibility is to express an opinion on Iron County Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Iron County Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Iron County Housing Commission's compliance with those requirements.

In our opinion Iron County Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Iron County Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Iron County Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133  
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson Tackman & Co. PLC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

June 7, 2006

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



# IRON COUNTY HOUSING COMMISSION

For the Year Ended September 30, 2005

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expensed as of 9-30-04</u>	<u>9-30-05 Federal Expenditures</u>
Operating Subsidy	14.850	<u>\$ 324,791</u>	<u>\$ -</u>	<u>\$ 324,791</u>
Section 8 Rental Voucher	14.871	<u>\$ 642,549</u>	<u>\$ -</u>	<u>\$ 642,549</u>
Capital Funding	14.872			
501-04		\$ 202,882	\$ 72,257	\$ 130,625
501-05		<u>166,700</u>	<u>-</u>	<u>84,753</u>
		<u>\$ 369,582</u>	<u>\$ 72,257</u>	<u>\$ 215,378</u>
Total Department of Housing and Urban Development				<u>\$ 1,182,718</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 1,182,718</u>

See accompanying notes to the schedule of expenditures of federal awards.



**IRON COUNTY HOUSING COMMISSION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended September 30, 2005

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Iron County Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE B - COST REPORTS**

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.

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## IRON COUNTY HOUSING COMMISSION

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended September 30, 2005

#### **A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Iron County Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Iron County Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Iron County Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Iron County Housing Commission.
7. The programs tested as major programs included:
  - A. Operating Subsidy – CFDA 14.850
  - B. Housing Choice Vouchers – CFDA 14.871
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Iron County Housing Commission was not determined to be a low-risk auditee.

#### **B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. There were no findings or questioned costs.

#### **C. PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. Section 8 Rental Voucher Program - CFDA No. 14.871; Grant Period - Year ended September 30, 2004.

**Reportable Condition:**

Iron County Housing Commission did not perform the following compliance requirements of the grant:



## IRON COUNTY HOUSING COMMISSION

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended September 30, 2004

(Continued)

#### **C. PRIOR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT - (Continued)**

##### **DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)**

- a. Housing Quality Standard (HQS) Inspections— The Iron County Housing Commission did not perform HQS inspections as required. There were files reviewed that did not contain documentation that follow-up inspections of failed units were completed in addition to follow-up inspections not always being completed within the 30 day requirement.

##### **Recommendations:**

Iron County Housing Commission should formalize a system for complying with all the specific requirements of the Section 8 Rental Voucher Program.

##### **Statement of Condition:**

Iron County Housing Commission did not establish a system to monitor its compliance with the specific requirements of the Section 8 Rental Voucher Program.

##### **Criteria:**

As a recipient of federal funds, Iron County Housing Commission is required to comply with the grant requirements of the Section 8 Rental Voucher Program.

##### **Effect of Condition:**

Expenditures under the program may be disallowed.

##### **Cause of Condition:**

Iron County Housing Commission' oversight of reviewing program requirements.

##### **Action Taken:**

Management had implemented a documentation system so as track homes that did not pass the HQS inspection and the progress taken on those homes along with due dates. In addition, the Commission holds HAP checks for those owners who do not take corrective action until the failures have been abated and re-inspected.



**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

**Principals - Iron Mountain:**

L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

**Member of:**

Private Companies Practice Section  
American Institute of Certified  
Public Accountants

June 7, 2006

Board of Commissioners  
Iron County Housing Commission  
Crystal Falls, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Iron County Housing Commission for the year ended September 30, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 7, 2006, on the financial statements of the Iron County Housing Commission.

1. During the review of cash and investments it was noted that although the Commission had depository agreements in place with the banks it does business with, the Commission's funds were not fully collateralized as required by HUD.

**Recommendation**

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with each of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At September 30, 2005, the Commission had funds in excess of insured amounts totaling \$16,000. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks is adequate throughout the year.



2. It was noted during the audit that the Commission is issuing HAP payments in excess of HAP received by HUD.

Recommendation

It is imperative that the Commission monitor its HAP funds received by HUD on a monthly basis and compare it to the amount of HAP payments paid to owners under the program. The Commission needs to make sure that the HAP being paid out does not exceed the HAP coming in. The Commission is only receiving a pre-determined amount of HAP on an annual basis and it should not exceed that amount being paid to owners.

3. It was noted during the audit that the Commission's cash and investments less current liabilities is only enough to cover approximately 1 to 2 months of operating expenses.

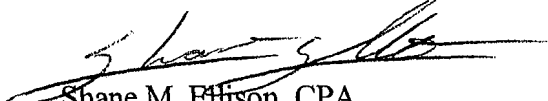
Recommendation

The Commission needs to start taking steps in controlling its expenses. With funding being decreased and other costs increasing, the Commission needs to monitor its finances very closely. Without prudent financial monitoring, the Commission could find itself financially troubled before long.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA  
Principal